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SUBJECT: HONG KONG ANTI-MONEY LAUNDERING LEGISLATION
UPDATE: MONEY CHANGERS EMBRACE LICENSE PROPOSAL

REF: HONG KONG 289

1. (SBU) Hong Kong is making progress on Financial Action Task Force (FATF)-compliant anti-money laundering (AML) legislation that would establish licensing and oversight requirements for Hong Kong's remittance agents and money changers (RAMCs). On October 8, the Financial Services and Treasury Bureau (FSTB) completed the first round of public AML legislation consultations. A second round of consultations, lasting two months, will start in December. Hong Kong's Legislative Council would receive a draft of the proposed legislation in the second quarter of 2010. FSTB's Principal Assistant Secretary Angelina Kwan expected the bill's implementation by early 2011, with RAMCs "embracing" the proposed AML framework in hopes a government-issued license would facilitate more access to banking services.

2. (SBU) The proposed legislation would address weaknesses in Hong Kong's AML regime identified in FATF's 2007 Mutual Evaluation of Hong Kong. Specifically, it would create statutory requirements and civil penalties for customer due diligence and record-keeping in the banking, securities and insurance sectors (reftel). Additionally, the legislation would establish a robust licensing program for RAMCs under the authority of the Hong Kong Customs and Excise Department (HKCED), Trade Controls Branch. This new licensing program would replace existing Hong Kong Police Force RAMC registration procedures for over 2,100 RAMCs and give HKCED enforcement powers.

3. (SBU) FSTB presented the legislation's objectives and collected feedback from affected sectors during a three-month public consultation period that ended October 8. Most RAMCs "surprisingly" embraced the sector's unprecedented licensing regime, Kwan told us. Traditionally considered "high-risk" ventures, Hong Kong's RAMCs had complained that Hong Kong banks would often refuse to provide them needed banking services. RAMCs now hope HKCED's licensing approval will open the door to normal banking relationships. Kwan predicted the RAMC industry would likely undergo consolidation as small operators pooled resources to meet the legislation's administrative requirements.

4. (SBU) FSTB's proposed legislation still does not meet all of Hong Kong's FATF-identified weaknesses, however. For example, it does not establish regulatory oversight and supervision over non-financial professions (e.g., lawyers, accountants, real estate agents, etc.) and does not establish a cross-border bulk cash declaration and disclosure system. However, Kwan stated Hong Kong's Security Bureau would take up these issues in the near future and had already begun discussions with law enforcement and cross border agencies on the feasibility of establishing a cash declaration mechanism.

